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Economic Conditions
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General Business Conditions

THE threat of a strike in the automobile industry has overshadowed other elements in the business situation during the greater part of March; and undoubtedly the peaceful settlement of this controversy, through the mediation of President Roosevelt, has saved Spring business from a severe setback. A shutdown or sharp curtailment of automobile production would have been felt in all industry and trade, by reason of the employment given by the industry itself, its position as a chief buyer of the products of many other industries, and its special importance at this season of the year, when it comes into peak production and gives more support to general business than at any other time. The threat to Spring trade was everywhere realized; and even with the hope of conciliation that prevailed during the discussions business sentiment was widely disturbed.

Moreover, the questions in controversy were of general application. The dispute was not upon wages or hours in the one industry, the unions conceding that both were satisfactory, but upon the methods of collective bargaining to be employed under the Industrial Recovery Act, which applies to all industries. Hence if the situation led to one major strike there was fear that it would lead to others also. Naturally such fears are destructive of confidence and of the will to do business.

Coming in this atmosphere, the settlement accomplished by the President is a very important achievement. It removes the danger of enforced curtailment of automobile operations, which would cause curtailment in other industries; and if the formula upon which the settlement was reached works in one major industry it will probably work in others, wherever controversy over similar issues may arise. Thus the danger of a series of great strikes over questions of union jurisdiction appears to be averted.

To be sure, jurisdictional issues are not the only labor questions in controversy. Disputes over wages and hours are threatening in other industries, and they are a menace to the business improvement. If they lead to strikes they will make the disorder in business worse, and if they lead to inequitable wage increases in excess of what is warranted by the productivity of labor, or by the ability of industry to pay, the effect will be equally bad; for the higher costs will have to be added to prices, at the expense of other groups of the population, and the balance in economic relations will be further disturbed. The interest of both sides in quickly composing their differences, and of the Government in exerting its influence through mediation, is self-evident. Industrial conflict is never more costly or deplorable than in the early stages of recovery, when the economic system is struggling to regain its equilibrium, and when incomparably the chief interest of everyone is in getting goods moving again and people back to work. If this purpose is kept to the fore by all concerned the waste of industrial conflict will be avoided.

With the strike threat removed the automobile industry may be expected to give its usual Spring support to business, until it reaches the peak of its season, which generally comes in May. Its production during the first quarter has been the largest in four years, and probably its sales also. In February new passenger car registrations were 42 per cent larger than a year ago, and new truck registrations 149 per cent larger. March figures of course are not available, but are expected to make an even better showing; and the industry is starting off the second quarter at a rate that shows confidence in its sales prospects, and is heartening to other industries.

Business Gains Irregular

Business in general has made progress during March, with such indexes as car loadings and electric power consumption showing the full seasonal rise or more. However, the gains in industry have been more irregular and at a slower pace than in February. Among the basic industries the effects of the strike

threat have been felt chiefly in steel. Orders from automobile manufacturers were a principal factor in the rise of steel mill operations from 30 per cent of capacity at the beginning of the year to 47.7 in the week ended March 10; and with automobile buying falling off the rise stopped at that level, still some distance short of the peak the industry hoped to reach. From other lines, however, specifications have held up, and the expectation is now general that the operating rate will climb higher in April.

Along with automobiles, the building industry is usually counted on to give the chief support to the Spring rise, and the building figures show a pronounced improvement. During the first 22 days of March contract awards, according to the Dodge reports, were 69.7 per cent greater than in February, on a daily average basis, and 235.9 per cent above a year ago. The greatest gain is of course in publicly-financed construction, but residential contracts nearly doubled the 1933 figures and were 70 per cent larger than in February. Considering the high costs prevailing, which have put the costs of residential building out of line with the rents that can be obtained, this showing is better than has been generally expected.

Cotton mills have continued busy, working on the orders taken during the first six weeks of the year. Since the middle of February, however, new orders have fallen considerably short of shipments, and as the backlog is reduced some tapering off of mill operations will be in order. The woolen mills are entering the between-seasons period, weaving the last of Spring goods and preparing for the Fall openings in women's wear. Silk goods and rayon markets have been dull.

The coal industry has given more support to business than in some time. Reflecting widespread cold weather as well as the improvement in industrial consumption, the week to week gains in shipments have been substantially more than seasonal, and lately they have reached the highest level since 1930.

Retail Trade and Price Advances

Retail sales figures show the broadest gains in many years. During February department store sales, in dollars, were 16 per cent larger than a year ago, and mail order and chain store sales about 15 per cent larger. The chief gains, as in other recent months, were in the country districts, where, according to the new index of the Department of Commerce, merchandise sales were up 43 per cent. In the first two weeks of March department store sales in New York City showed an increase of 36.4 per cent, which compares with a gain of 15 per cent in the first two weeks of February.

Of course the usual practice of comparing trade figures with one year ago now gives misleading results, in view of the trade paralysis existing during the banking crisis last year. Moreover, the increases given are in dollars, and except in rural trade the gains are fully accounted for by higher prices. The Fairchild index of department store prices on March 1 was 28 per cent above a year ago and about the same over the low point on May 1, 1933. Superficially a comparison of department store sales with this index would seem to indicate a falling off in the physical volume of goods sold, but such a conclusion may not be entirely valid, for a rise in prices may cause a shift to cheaper qualities rather than a reduction in purchases. Undoubtedly this is the effect in clothing and similar lines, for there are numerous reports of woolen factories turning out cheaper grades of cloth to meet the demand from consumers whose purchasing power has not increased proportionately to the price advances.

The location of the chief retail trade gains shows from what sources the increased buying power is derived. They are in the agricultural regions, where the farmers have benefitted by the rise of prices since the first of the year, and where Government funds are being disbursed on a great scale. They are in the cotton textile and other centers making goods of every-day use, where a high rate of employment has combined with the wage increases to keep up purchasing power. The heavy industries, and particularly those making capital goods, are still the laggards, keeping the industrial situation unbalanced.

Business Sentiment Conservative

The commodity markets have shown little activity or change during the month, their movement suggesting a state of uncertainty and a disposition to put off forward purchases, but no general weakness. The labor situation is an obvious explanation of the tendency to go slow, but probably not the only one. Undoubtedly business men are more conservative than they were during the Spring of last year. The losses taken by many after the break in the markets last Summer, the Fall recession in industry, and the disappointing volume of Fall trade, were all instructive. It is recognized that the purchasing power being disbursed by the Government is artificial, and necessarily temporary; to be sure the disbursements will continue for some time, but there is doubt as to what the situation will be when they are terminated. As it becomes necessary to mark prices higher, due to rises in replacement costs and in expense of operation, merchants have less confidence in their ability to move a full volume of goods over retail counters.

A further comment on the attitude of merchants is the failure of the possibility of addi-

tional increases in wages and decreases in hours, as requested by the President, with Congress holding a 30-hour week bill in reserve, to stimulate buying in any marked degree. In a similar though more extreme situation last year business men covered requirements for months ahead. Of course the present attitude is more wholesome. It is possible that the strike threat has caused some accumulation of supplies, but there is no speculative position equivalent to last year's to be liquidated.

The Conference of N.R.A. Code Authorities

Besides the controversy over the question of employe representation in industry, the event of the month of greatest moment to the future of business was the conference at Washington early in March of the code authorities charged with administering the codes of fair competition under the National Industrial Recovery Act. The purpose of the meeting was to review and revise the codes in the light of the experience with them, and to consider the Government's proposal for a further shortening of the hours of labor and raising of wages as a means of reducing unemployment and spreading purchasing power. The meeting was deeply significant for two reasons—first, because of the importance of the policies adopted to the progress of business recovery, and, second, because of the much broader and more fundamental question as to what kind of an economic system the country is going to live under in the future.

No one present at the meetings in Washington could fail to be impressed with the high purpose actuating those participating in the deliberations. The question, however, is not solely one of purpose, but of practical and workable solutions. There was ample evidence in the discussions of the extraordinary difficulties involved in fitting all business, with its infinite variety of complex problems, into some arbitrarily determined pattern of prices, wages and practices. With wages, prices, and production intimately related, regulation of one factor must necessarily involve regulation of all three. What shall be the standard for fixing prices? Production costs? If so, whose? And what shall be included in production costs? How coordinate price fixing programs so that the fixing of—say lumber—prices will not merely divert public demand to brick and cement? It is possible, of course, to fix brick and cement prices, too, but suppose this diverts consumer demand from building materials altogether to automobiles or some other article of consumption? One thing certain to be revealed in every attempt at arbitrary control of business is the way the effect of intervention at one point spreads out and creates problems at other points, and one interference leads to another and another and another. It is to be doubted that the wisdom of any overhead authority can be as effective in dealing with these multiple problems as natural forces operating in a free market. Almost inevitably the tendency of a regimented economy is to preserve the status quo. The effort is constantly to suppress competition, and while it will be admitted that there are certain competitive methods that ought to be suppressed, in general the effect of competition has always been to hasten the rate of industrial progress.

It is natural for business men to seek protection from the rigors of competition, but the question may well be asked as to what incentive will remain for the exercise of individual initiative and enterprise when prices and production in all trades are regulated in the interest of protecting the majority of units in the trade regardless of such considerations as location of plants with respect to markets, capacity and resourcefulness of management, efficiency of equipment, etc. Moreover, codes and similar controls introduce rigidities into the economic system which tend to obstruct prompt adjustment to changing conditions. What the economic system needs is flexibility to make adjustments before disequilibrium becomes too serious. Only by observance of the economic law can the economic system be kept in balance, and usually the purpose of control schemes is to oppose rather than observe this law.

More Pay for Less Work

There can be no doubt but that the proposal of the Government to further shorten the work week and increase the rate of pay has caused a great deal of anxiety among business men. There is no wish on the part of the American business men to be niggardly with labor. Industry in this country believes in the doctrine of good wages, and for many months after the onset of the depression employers in general withheld wage cuts, hoping that an improvement in conditions would make them unnecessary. Business men know, however, that increased wages and shorter hours mean higher prices, and they are fearful of the effect of price advances upon consumption in the present state of the markets and of reduced buying power.

Should industry be called upon to assume increased labor costs, such costs must be offset by an increase in the productivity of labor, or else they must either be passed on to the consumer in the form of higher prices or loaded on to industry at a time when it is just beginning to struggle back to its feet again and when a substantial proportion of the companies are still operating at a loss. Since restriction of working hours impedes the im-

provement in labor efficiency, the tendency evidently must be in the direction of the latter two alternatives. If the former, it may be contended that increased wages which result in increased living costs do not mean any increase in real wages, or enhancement of buying power. If the latter, the danger will be in killing the goose that lays the golden egg. Unless business is permitted to make a fair profit there will be no incentive to go ahead.

The theory that shortening of hours of labor and raising wage rates in manufacturing will increase purchasing power fails also to take account of the farmer who is not a recipient of any of this higher pay, although he is called upon to hand out more money for everything he has to buy. Mr. Fred H. Clausen, of the farm equipment industry, speaking before one of the Washington meetings of code authorities, emphasized this phase of the situation when he said:

> Up to March 1st there has been no advance in list prices of farm machinery in spite of rising costs of production. We have sold out our inventories at old prices during the last 3 months and now face the necessity of meeting increased material and labor costs that are already here. The time has come when price advances will have to be made with present code hours. For many companies in my industry such advances are inevitable if they are to avoid bankruptcy.
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> Material costs since October 1st have advanced 14 to 18 per cent, depending on the type of machines manufactured. Labor costs have advanced 15 per cent.
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> A further reduction in number of weekly hours with corresponding increase in wage rates will manifest itself all the way from the mine and the forest to the gates of the farmer's yard. One of two results will follow. Either he will not buy what he needs or the efforts of other branches of government to restore economic parity will be frustrated.

No doubt the N.R.A. authorities would be willing to refrain from burdening this particular industry with increased production costs at this time. However, what Mr. Clausen had to say has application to other industries as well. Other lines also depend on the farmer for a market, and it is just as important from the standpoint of farm purchasing power and consumption that costs and prices be kept down in these lines as it is in farm equipment.

Money and Banking

The money market has continued extremely easy, with the over-supply of funds reaching new high levels every week. Largely because of gold imports, monetary gold stocks increased $437,000,000 in the four weeks ended March 21, lifting total stocks to $7,640,000,000. In addition, the Government in making payments drew substantially on its cash balances in the Treasury, with the result that member bank reserves increased over $600,000,000 during the period. In New York City excess reserves reached a figure around $450,000,000, and for all member banks approximated $1,475,000,000.

Reflecting this glut of funds, yields on short-term Treasury issues dropped to new low levels, two issues of $50,000,000 Treasury bills, one for 90 days and one for 182 days, being sold late in the month at 0.08 and 0.19 per cent respectively. Bankers' acceptances dropped ¼ to ⅜ bid—¼ asked for 90-day bills, and open market commercial paper was slightly easier at 1—1¼ per cent for best names.

Bank deposits continued to increase during the month, reflecting gold imports and the Government's borrowing program. Since January 24, when the Treasury speeded up its borrowing, total loans and investments of weekly reporting banks have increased $1,123,000,000. Of this total, $1,020,000,000 was in Government securities. Holdings of other investments increased about $100,000,000. Loans, on the other hand, remained practically unchanged, reflecting the quiescent demand from industry.

Free vs. Controlled Agriculture

The farm situation has been set forth in all its complexities by Secretary Wallace in recent public addresses, magazine articles, and especially in his pamphlet entitled "America Must Choose" (published by the Foreign Policy Association, New York, and the World Peace Foundation, Boston). Mr. Wallace states that his aim is to arouse debate "throughout America, and on the highest possible plane" upon varying policies which the country may follow; and his high purposes, plain speaking, and open-minded conclusions have made a strong impression upon the public mind. He emphasizes the view that prosperity will not be restored on the farm unless the policies adopted for agriculture, trade and industry are all harmoniously related, to reestablish the balanced economy which President Roosevelt has defined. This view, and also the converse that only through such harmonious policies will prosperity be restored to trade and industry, are indisputably correct, whatever the debate may be as between the programs which Mr. Wallace outlines.

His diagnosis of the original causes of the disparity between agriculture and industry, so far as they were on the side of agriculture, is unanswerable. He states, in brief, that during the war 50,000,000 acres in Europe, not counting Russia, were out of cultivation, and that to replace this loss the United States added 40,000,000 acres to its tilled domain and "threw its whole farm plant into high gear." Other countries having new lands to develop did the same. New farming methods enabled each farmer to produce more, and low costs on the new lands kept them in production after the war emergency was past. Gradually Europe restored her own production, and more; and

as Mr. Wallace says, "From 1926 on it became increasingly plain that modern technique applied to agriculture was heaping up a worldwide oversupply."

Mr. Wallace then goes on to refer to the tariff increases and other trade barriers raised in this country and elsewhere, with restrictive effect upon the volume of international trade, including our own exports; to the effects of our foreign loans in maintaining for a time a market for our surplus; and to the subsequent breakdown.

This in simple terms is the explanation of the plight of agriculture, and of the disruption of price relationships which has been the chief factor in the depression. Mr. Wallace defines the farm problem as one of "surplus acreage," of "producing for the world market just as if that market were still there." At present the Administration is conducting what he calls "an orderly retreat from surplus acreage," but he does not claim that the emergency measures constitute a fundamental plan for American agriculture. On the contrary, he says, "We are sparring with the situation until the American people are ready to face facts . . . The more I study our trouble the more I am convinced that it calls for more than emergency action and patchwork on top of patchwork."

The Alternative Policies

The policies among which Mr. Wallace declares America must choose are three in number. His own "bias," as he puts it, is "international." He would prefer to deal with the agricultural surplus by enlargement of markets through reduction of trade barriers rather than by forcible restriction of production. He describes in inspiring terms the benefits of trade, and the influence which America could exert "toward larger, more rational and more decent trade designs." However, he says, "We cannot take the path of internationalism unless we stand ready to import nearly a billion dollars more goods than in 1929;" and he considers that the world is "unlikely to move in an international direction very fast in the next few years."

As the alternative policy to reduction of tariffs, Mr. Wallace states that if we will not buy more from abroad we shall be unable to sell abroad the surplus of farm products which our present acreage can produce; and that the surplus acreage accordingly must be retired from production, and its population shifted into other occupations.

We will give in Mr. Wallace's own words, from the pamphlet above mentioned, his statement of what the United States must be prepared to do if it follows the nationalist path:

> Under nationalism we must be prepared to make permanent the retirement of from 40 to 100 million acres of crop land. Forty million, if we take out good lands; 100 million if we take out the worst. Furthermore, if we continue year after year with only 25 or 30 million acres of cotton in the South instead of 40 or 45 million acres, it may be necessary after a time to shift part of the Southern population, and there is a question as to just what kind of activity these Southern farm laborers should engage in. We will find exactly the same dilemma, although not on quite such a great scale, in the corn and wheat belts. * *
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> If we finally go all the way toward nationalism, it may be necessary to have compulsory control of marketing, licensing of plowed land, and base and surplus quotas for every farmer for every product for each month in the year. We may have to have government control of all surpluses, and a far greater degree of public ownership than we have now. It may be necessary to make a public utility out of agriculture and apply to it a combination of an Esch-Cummins Act and an Adamson Act. Every plowed field would have its permit sticking up on its post.

This forceful statement should clear away all uncertainty as to the price that the country must pay if it wishes, as some persons undoubtedly do, to give up trade and to become economically self-sufficient. The acreage figures given will have more meaning if it is considered that the area stated to be withdrawn from cotton production is as much as all the land that is normally planted to cotton east of the Mississippi River. The 40,000,000 acres of good crop land is more than the planted area of the States of Iowa and Minnesota combined, with their 5,000,000 population; and is substantially more than all the planted area between the longitude of the western border of Kansas and the Pacific Ocean. The 100,000,000 figure is nearly 30 per cent of the country's total acreage planted to principal field crops.

In truth the magnitude and complexity of the readjustments that would be required, if an effort were made to force an area of this size permanently back to grass and forest, are inconceivable. The word "planning" applied to such a program is a misnomer, for unquestionably any attempt to accomplish such gigantic readjustments either in defiance of the economic law, or more rapidly than the economic law could accomplish them, would throw all the economic system into a new climax of disorder.

Secretary Wallace naturally shrinks from pursuing nationalism to such an inevitable conclusion, and fortunately there are still foreign customers for our cotton, tobacco and some foodstuffs. Therefore his third policy, and the one which he thinks is the most practicable to follow, is the compromise policy: a "planned middle course," halfway between the extremes. He calculates that this course will require the retirement of 25,000,000 acres of good farm land, and reduction of tariffs to admit $500,000,000 more of foreign goods.

Insists Crop Control Is Necessary

Whatever direction the national policy takes, Mr. Wallace insists that there must be, whether we like it or not, "social machinery

for crop control." He is convinced of its benefits not only in reducing acreage, but in controlling expansion when trade increases. He repeats the arguments as to the previous "reckless disdain of world traffic signs," and the need of an overhead authority to keep order.

It is upon this aspect of the Secretary's thesis, rather than his showing of the necessity of readjustments to restore a balanced economy, that the chief questions will arise. It will be asked whether overhead control of agriculture will work, and whether its results will be desirable if it does work. Moreover, it is very important to determine whether a middle course is in fact practicable; for all parts of the economic system are interrelated, each reacting upon others. Hence forcible adjustments in one place may require compensating adjustments in others, and so on, leading eventually to the extremes of control which Mr. Wallace describes.

Within the past month the Senate has voted to add cattle, rye, barley, flax, peanuts, and grain sorghums to the list of basic commodities defined in the Agricultural Adjustment Act, which originally included wheat, cotton, corn, rice, tobacco and hogs. Moreover, Secretary Wallace has proposed an amendment authorizing the inclusion of other agricultural commodities in any agreements made to limit acreage, or production for market, in the basic commodities; this in order to prevent farmers who curtail one crop from overproducing a substitute crop. This would seem to bring all farm commodities in part under the Act, and illustrates the manner in which controls tend to spread.

Compulsory Crop Limitation

The longest step yet taken toward a centralized control of agriculture in this country is the limitation of the coming cotton crop, as provided by the Bankhead bill, which has passed the House and Senate, and is now in conference. The methods of this bill, which provides for allotment of quotas to each cotton grower and for penalties upon production in excess of the quota, are new in the experience of this country. Previous efforts to give effect to "national planning" of the farm program have depended upon the farmers' voluntary cooperation, enlisted, to be sure, by the payment of Government bounties. Nor have they gone beyond acreage reduction, which leaves the farmer free to market all he can grow, and to benefit to the utmost from every improvement in production methods that he can make.

It should be stated that Secretary Wallace has not actively favored the Bankhead bill, but has acquiesced in it because he is convinced that the cotton growers want it. However, the history of the measures on behalf of cotton, dating back to the Federal Farm Board, shows how one step leads to another. Under the Farm Board nothing more than advice was offered to the cotton farmers to reduce their acreage. The second step, taken last Summer under the A.A.A., was the payment of Government funds in return for the plow-up agreements. The third was the similar acreage reduction campaign of the current season. This campaign has been successful to the extent that growers have signed contracts to reduce the area planted by more than 15,000,000 acres. But there was general evidence to the effect that growers would double their efforts to make a high yield upon the reduced acreage, by planting closely, using more fertilizer, and cultivating intensively. Hence another good sized crop appeared very probable, and this in a natural manner has led to the new legislation.

It is certain that cotton is in over-supply, i.e., a supply in excess of what free markets would take at remunerative prices, and that a reduction of the surplus is desirable. But there is a question as to how and by whom the reduction should be accomplished; and this is the heart of the issue between a free and a controlled agriculture. The general welfare requires not only a balance between cotton and other commodities, but also that the cotton produced shall be grown in the lowest cost areas, in order to make the price to consumers as low as practicable, and to encourage consumption. This is what the operation of a free market tends in the long run to accomplish, and if overhead control is to improve the general situation it must tend in the end to achieve the same result.

Provisions of the Bankhead Bill

The details of the Bankhead bill cannot be described finally, as it is still in conference at this writing, but the principles of the measure will not be changed. Naturally it cannot regulate the yield per acre or, therefore, the size of the crop, which as usual will be determined by the weather and other factors. The method employed to exercise control is to lay a tax upon cotton marketed in excess of the quota allotted to each producer. The tax fixed by the bill as amended in the Senate is three-fourths of the average central market price, but not less than 8 cents per pound. This is intended to be prohibitive and must be paid when the cotton is ginned. Hence if a good growing season gives a producer more than his quota the excess cannot be ginned unless the price rises to a point where the tax is not prohibitive and will go to waste.

The bill as passed by the house applied to the crop years (beginning June 1) 1934-35, 1935-36, and 1936-37 also if the President should find

the emergency still existing. This was amended by the Senate to limit it to one year. This limitation is an improvement for which the Senate deserves all credit, but it is no warrant that the same scheme may not be adopted next year, and the next, and so on. If the precedents are to be relied upon the cotton growers who have been compelled to cut their acreage, or induced to do so by Government bounties, will rush to plant again when the compulsion and the bounties are withdrawn.

The maximum quantity of new crop cotton that may be marketed free of tax in 1934-35 is set at 10,000,000 bales. Each grower may market six bales free of tax. Otherwise the allotment is to be proportioned among the States according to their average production of the past ten years, and to the counties on the same basis, with the provision that 10 per cent of each State's quota shall be set apart for allocation to new lands, to areas where the crop has already been excessively curtailed, and for other special purposes; but all these special allocations must be within the States.

Subject to the general provisions given, the allotments to individual farmers will be determined by the Secretary of Agriculture upon such uniform basis as he deems fair and just, with regard to the past and potential production of each farm.

"Freezing" Production

The test of the economic soundness of these allotment provisions is whether they accomplish the result declared above to be desirable; namely, that whatever cotton is produced shall be grown on the lands and by the farmers having the lowest costs of production. Evidently Secretary Wallace has his doubts. In a statement made in hearings upon the bill he said:

> The effect of preventing a normal change-over from cotton producing lands to non-cotton producing lands, and vice versa, should be carefully considered. I feel that we must recognize that one of the most difficult problems in administering any sort of compulsory legislation is the tendency to freeze the production of whatever commodity we are dealing with to the confines of the States or territories where it has previously been produced.

The bill plainly does just what the Secretary has stated. It freezes cotton production within the States where cotton has previously been grown, exactly in proportion to their past production. It makes impossible any shift between States during the life of the bill. Moreover, it freezes 90 per cent of the production within the counties. Indisputably it puts the burden of crop reduction not upon the marginal and sub-marginal producers, where it belongs, but generally upon all producers.

In recent years there have been great shifts in the distribution of cotton production among the States, due to the opening of new lands in Texas and other States, especially west of the Mississippi. As compared with the pre-war average, the average annual acreage planted east of the Mississippi in 1929 to 1933, inclusive, was 12.4 per cent smaller; but the acreage west of the River was 42.8 per cent larger. This was a natural shift, occurring in response to lower costs of production in the Plains area of the West, where the crop is grown without fertilizer, is cultivated less, and is harvested by machinery. According to figures from the Department of Agriculture these areas made cotton in 1932 at an average cost of 6.1 cents per pound of lint, including rents and a charge for the farmer's labor, compared with an average of 9.0 cents for the whole Belt. The corresponding figures for 1931 were 8.5 and 9.1.

Such shifts as described from high-cost to low-cost areas are in obedience to the economic law under which all the progress of mankind in raising its standard of living has been made, but they would be stopped under the regime set up by the Bankhead bill. Thus when the time comes to expand production again, and to put back to use a part of the 20,000,000 acres suitable for cotton that will not be planted this year, the location of the new acreage would be determined not by the advantage in costs of one farm over another, but by an arbitrary legislative fiat.

One of the purposes of the bill, as stated in the title, is "to place the cotton industry on a sound commercial basis," but cotton production cannot be economically established upon a plan which would give quotas alike to efficient growers on low-cost lands and inefficient growers on high-cost lands, and result in artificially high costs and prices which will restrict consumption. The soundest "commercial basis," and the surest road to profit, is low cost of production. There never would have been any economic progress, and the increasing population of the world would have lived in increasing degradation, if in both agriculture and industry the policy of reducing production costs had not been instinctively followed.

Cotton Growing in Other Countries

Another stated purpose of the bill is "to preserve advantageous markets" for cotton. But the rise in production of cotton in foreign countries, competing with the American crop, cannot be ignored. The total of foreign crops this season is the largest on record, being estimated by the New York Cotton Exchange Service at 12,166,000 bales. American cotton growers commonly assume that competition of foreign growths is of little concern to them, and this is true in the sense that foreign expansion of cotton growing is for many reasons likely to be slow. However, nothing would

speed it up so much, nor promote so effectively the use of competing fibers, as three or four years of artificially restricted production and artificially high prices for American cotton.

The effects of the measures already taken in this country are shown in the relationship of prices of other growths to prices of American cotton in foreign markets. Quotations on Indian cotton in Liverpool are typical, and the relationship since the first of this year has turned greatly in favor of Indian and against American. On March 28th the price of fine Oomra was 30 per cent below the price of American middling ⅞". This is nearly the widest spread on record. Experience has shown that at such a ratio the consumption of other growths will gain relative to American in the world markets.

American growers may wonder that foreign countries expand their cotton production at a time when the gold price is not much above 7 cents a pound, and has been that high for only a short period. But other cotton-growing countries also have depreciated currencies and higher domestic prices; their production costs have been reduced; and their alternative crops have been selling at low prices. The American producer has gained no competitive advantage over other cottons by reason of the devalued dollar.

Population Shifts

As an emergency measure one adjustment of the cotton situation such as the Bankhead bill contemplates may be worth its cost, and probably many people, viewing its provisions as impracticable for a permanent system, do not conceive the possibility of its extension. Evidently, however, there is danger that if control of this kind increases production costs and prices of cotton, the export outlets will be further diminished, whereupon the country would have no choice but to restrict production accordingly; and this may make the adjustment of supply and demand a longer matter than the present calculations allow. In that event the question of what the people will do who give up growing cotton, upon which we have quoted Secretary Wallace's statement, will become a pressing one. It has already happened that share-croppers and tenants of owners who have subscribed to the various crop restriction plans have had to apply to the Government for relief.

Within the past month, the Government has been making plans for the purchase and permanent retirement of 3,000,000 to 5,000,000 acres of sub-marginal land, a policy which permits an effective use of Government funds, and is not open to the objections made as to the allotment system of the Bankhead bill. However, in considering what will happen to the farmers now on the land, the man called upon for solution of the problem was the Relief Administrator, Mr. Hopkins; and one of the newspaper stories describes the situation as follows: "A considerable shift (of population) is foreseen, which is expected to be accomplished by offers of more attractive livelihood put forth by the Relief Administrator."

This shows that not only the cotton growers are affected by the planning on their behalf but the whole economic system. In truth the basic issue is as to the manner of accomplishing the distribution of the population among the various occupations. In a free society this distribution is guided by individual choice and by the compensation obtainable. Everyone is free to get in or get out of any occupation, according to conditions in that occupation and his own inclination, and this freedom of movement maintains the adaptability of the industries to changing needs and methods. As long as the movement is flexible, gradual and orderly, as it naturally tends to be, its effect is to maintain the equilibrium in the economic system. This was the character of the movement from the farms to industry in the '20s. But if it is arbitrary and violent it causes disorder.

As the alternative to these violent shifts there is the policy for which Secretary Wallace expresses his "bias", of keeping as many people growing cotton as is consistent with their welfare, by adopting policies that will enlarge markets, increase consumption, accept the natural benefits of trade, and restore a balanced economy upon the basis of abundance rather than scarcity. The requirements of this course, so far as cotton growing is concerned, are to leave the industry free to make its own adjustments, and to refrain from penalties upon efficiency. Such policies will lower the costs of cotton growing, and lower costs will make it possible for more producers to operate farms at a profit. This is the purpose for which the Department of Agriculture was established, and in the fulfillment of which it has had an honorable and useful career.

The Wheat Situation

There has been talk of placing some form of compulsion upon the wheat growers, due to the fact that the acreage apparently has been reduced by less than 15 per cent below the 1930-32 average, which was the limit accepted by this country at the London wheat conference last year. However, no announcement has been made. The Winter wheat sowings are clear evidence that the burdens of a uniform reduction of acreage fall as much upon the low-cost as the high-cost producer, in this case even more. The situation is described thus in the Northwestern Miller, February 28:

> Every one even moderately informed about wheat production knows that millions of acres of land west of the hundredth meridian not only are better adapted

to wheat than to any other crop but, both by the quality of the soil and the semiarid climate, not at all well adapted to large scale production of anything else. Yet it is in this section that the wheat reduction campaigns have been principally conducted and chiefly effective. Particularly in the hard winter wheat states of the Southwest the bonus for acreage reduction pledges has been most effective, with the result that production has been cut in the very place where production should be stimulated, while in other territories, where wheat should be grown only as an essential part of a rotation program, current winter wheat seeding figures show an actual and admittedly undesirable increase in seeded acreage.

It is pointed out that the small-field producer in rotation-farming areas could better find a satisfactory substitute for wheat, in his year-after-year planting program, than the Southwestern grower.

The Department of Agriculture also publishes figures of wheat production costs, which in 1931 were 56 cents per bushel in Kansas and 55 in Oklahoma, compared with 74 to 96 in Ohio and eastward; and in 1932 were 71 cents in the West, compared with 74 to $1.27 in the East. In response to these differences in costs the acreage has steadily diminished in the East and increased in the West. This is a familiar subject, and will not be expanded upon. The conclusions to be drawn are the same as those expressed concerning cotton.

Undoubtedly Secretary Wallace and his associates in the A.A.A. are seeking a formula whereby their acreage reduction programs can be made to apply to the high-cost areas. But the difficulty is plainly enormous. The dislocations that would be caused by the arbitrary closing down of the required area of sub-marginal land, estimated by Secretary Wallace at 100,000,000 acres, are scarcely to be thought of.

The Rate of Business Profits

With the publication last month of a large number of additional reports of corporations for the year 1933, including those of many leading organizations in the various industries, it is possible to present a more comprehensive cross-section of the earnings of corporate business as a whole. The combined net profits, less deficits, of some 1,475 manufacturing and trading companies, classified according to 55 major industrial groups, show a 2.6 per cent rate of return upon net worth in 1933 as contrasted with a net deficit in 1932. At the beginning of 1932, the aggregate net worth of these companies was $27,367,000,000 and the deficit for the year was $97,000,000, while in 1933 the net worth of the same companies was $24,962,000,000 and the profits were $661,000,000.

A number of the outstanding factors in this improvement in earnings have already been discussed in our Bank Letter for March in which we gave a tabulation of some 810 reports published up to that time and referred to the benefits of rising commodity prices in stimulating sales, widening profit margins and eliminating the writing-down of inventory valuations, and to the lowering of operating costs so far as was permissible. In addition, the writing-down of fixed assets and the writing-off of obsolete or idle plant and equipment, with a corresponding reduction in shareholders' equity, resulted in a reduction in depreciation and overhead charges and made it possible for many companies to show profits on a much smaller volume of business than formerly. This action, and the payment of dividends in excess of earnings, caused a reduction since January 1, 1931, in the aggregate net worth of the manufacturing and trading companies in this tabulation of approximately $4,600,000,000 or 20 per cent and in the case of many individual companies the reduction was 50 per cent or more.

Although the change in the totals from a net deficit to a net profit is extremely encouraging, the rate of return in 1933 of only 2.6 per cent on net worth is unsatisfactory in view of the extent to which the latter has been written down and of the risks involved in the investment of shareholders' capital in the industries. Such a rate is less than that which can be obtained from investment in high grade bonds involving practically no risk. Moreover, the figure is merely an average and does not mean that all companies earned this rate. An analysis of the changes between 1932 and 1933 by individual companies shows the following:

Changes 1932-1933	Number	Per Cent
Increased profits	336	22.8
Deficits to profits	381	25.8
Decreased deficits	412	27.9
Total favorable changes	1,129	76.5
Decreased profits	168	11.4
Profits to deficits	61	4.1
Increased deficits	117	8.0
Total unfavorable changes	346	23.5
Total	1,475	100.0

Although the favorable changes outnumbered the unfavorable three to one, no less than 40 per cent of the companies were still in the red last year.

Profit per Dollar of Sales

To some people a calculation of net profits based on sales may be more significant than one based on net worth. The latter has more uncertainty about it, for there is always room for dispute as to the accounting procedure followed in establishing a fair valuation of invested capital. Profit on sales, on the other hand, reflects clearly the share of the value produced retained by capital. The principal difficulty about showing profits in this way is that comparatively few companies report sales in their published statements.

SUMMARY OF CORPORATION PROFITS FOR YEARS 1932 AND 1933

Net Profits Are Shown After Depreciation, Interest, Taxes, and Other Charges and Reserves, but Before Dividends.
Net Worth Includes Book Value of Outstanding Preferred and Common Stock and Surplus Account at Beginning of Each Year.
(In Thousands of Dollars)

No.	Industry	Net Profits Years 1932	Net Profits Years 1933	Per Cent Change	Net Worth January 1 1932	Net Worth January 1 1933	Per Cent Change	Per Cent Return 1932	Per Cent Return 1933
9	Agricultural Implements	D-$23,014	D-$10,582	......	$499,925	$469,424	— 6.1	......	......
15	Amusements	D- 20,053	D- 12	......	295,363	257,588	—12.8	......	......
26	Apparel	D- 8,030	3,205	+	142,764	117,777	—17.5	......	2.7
18	Automobiles	D- 29,916	82,993	+	1,263,914	1,121,602	—11.3	......	7.4
55	Auto Accessories	D- 21,296	198	+	378,600	314,571	—16.9	......	0.1
13	Aviation	D- 3,509	D- 302	......	102,376	61,279	—40.1	......	......
21	Bakery	27,759	24,498	— 11.7	368,437	344,967	— 6.4	7.5	7.1
54	Building Materials	D- 23,197	D- 8,730	......	574,905	493,006	—14.2	......	......
24	Chemicals	64,105	97,968	+ 52.8	1,288,615	1,218,124	— 5.5	5.0	8.0
24	Coal Mining	D- 11,381	D- 8,182	......	596,364	557,510	— 6.5	......	......
26	Confectionery and Bevr's	24,879	33,285	+ 33.8	229,640	222,619	— 3.1	10.8	15.0
13	Construction	1,453	D- 3,411	—	123,748	104,648	—15.4	1.2	......
55	Cotton Mills	D- 14,313	13,456	+	343,447	324,481	— 5.5	......	4.1
11	Dairy Products	20,410	13,568	— 33.5	340,322	322,196	— 5.3	6.0	4.2
22	Drugs and Sundries	34,167	31,548	— 7.7	271,124	257,057	— 5.2	12.6	12.3
45	Electrical Equipment	D- 26,630	D- 14,256	......	1,067,136	960,799	—10.0	......	......
5	Fertilizer	D- 2,888	D- 2,247	......	83,140	78,767	— 5.3	......	......
45	Food Products—Misc.	52,196	68,363	+ 31.0	797,426	726,193	— 8.9	6.5	9.4
8	Furniture	D- 4,356	D- 812	......	31,462	26,145	—16.9	......	......
24	Hardware and Tools	D- 10,298	D- 360	......	161,848	145,147	—10.3	......	......
25	Heating and Plumbing	D- 20,183	D- 4,661	......	361,197	315,268	—12.7	......	......
34	Household Supplies	3,584	19,851	+453.9	379,121	323,227	—14.7	0.9	6.1
13	Ice and Cold Storage	5,468	4,941	— 9.6	122,942	118,788	— 3.4	4.4	4.2
54	Iron and Steel	D-164,668	D- 73,458	......	4,041,397	3,806,395	— 5.8	......	......
13	Laundry and Cleaning	373	D- 297	—	23,573	22,155	— 6.0	1.6	......
12	Leather Tanning (a)	D- 7,278	8,409	+	97,963	88,242	— 9.9	......	9.5
9	Lumber	D- 2,246	D- 1,078	......	36,320	33,098	— 8.9	......	......
72	Machinery	D- 38,156	D- 17,711	......	520,806	447,708	—14.0	......	......
20	Meat Packing	D- 1,860	22,692	+	647,928	624,979	— 3.5	......	3.6
46	Mdse.—Chain Stores	57,178	91,265	+ 59.6	778,510	746,701	— 4.1	7.3	12.2
32	Mdse.—Dept. Stores	D- 17,093	998	+	286,968	241,107	—16.0	......	0.4
5	Mdse.—Mail Order	D- 7,765	15,179	+	347,903	311,022	—10.6	......	4.9
27	Mdse.—Wholesale, etc.	D- 8,850	3,796	+	175,680	148,465	—15.5	......	2.6
11	Mining, Copper	D- 9,759	D- 4,308	......	301,015	289,209	— 3.9	......	......
28	Mining, Other Non-fer.	5,625	42,577	+656.9	776,041	717,839	— 7.5	.7	5.9
14	Office Equipment	D- 2,720	6,993	+	224,919	193,827	—13.8	......	3.6
9	Paint and Varnish	32	6,600	+	115,529	103,356	—10.5	......	6.4
42	Paper and Products	D- 9,935	12	+	429,102	406,119	— 5.4	......	......
62	Petroleum	34,606	19,479	— 43.7	3,094,122	2,685,416	—13.2	1.1	.7
10	Petroleum—Pipe Line	1,233	2,232	+ 81.0	69,690	65,846	— 5.5	1.8	3.4
24	Printing and Publishing	7,869	4,893	— 37.8	183,833	169,568	— 7.8	4.3	2.9
26	Railway Equipment	D- 15,902	D- 11,521	......	921,147	807,722	—12.3	......	......
32	Real Estate	D- 4,422	D- 2,974	......	227,144	189,523	—16.6	......	......
11	Restaurant Chains	1,248	D- 310	—	78,009	62,625	—19.7	1.6	......
24	Rubber Tires, etc.	D- 15,005	11,077	+	496,117	464,747	— 6.3	......	2.4
7	Shipping	D- 599	2,502	+	112,224	107,658	— 4.1	......	2.3
18	Shoes	3,204	12,873	+301.8	205,391	185,705	— 9.6	1.6	6.9
22	Silk and Hosiery	D- 4,164	2,523	+	101,611	84,092	—17.2	......	3.0
11	Stock Yards	2,629	2,828	+ 7.6	52,632	51,381	— 2.4	5.0	5.5
34	Sugar	8,724	18,353	+110.4	382,997	373,620	— 2.4	2.3	4.9
32	Textile Products—Misc.	D- 14,520	13,600	+	319,617	281,350	—12.0	......	4.8
27	Tobacco	118,923	73,930	— 37.8	889,121	895,315	+ 0.7	13.4	8.3
8	Wool	D- 9,784	9,376	+	96,909	91,061	— 6.0	......	10.3
115	Miscellaneous—Mfg.	2,512	69,337	+	1,279,933	1,180,407	— 7.8	0.2	5.9
33	Miscellaneous—Services	D- 11,543	D- 9,531	......	228,684	204,369	—10.6	......	......
1,475	Total Mfg. and Trading	D-$97,156	$660,655	+	$27,366,651	$24,961,810	— 8.8	......	2.6
150	Class I Railroads	D-150,634	D- 13,801	......	12,721,412	12,393,699	— 2.6	......	......
85	Electricity, Gas, etc. (b)	353,535	296,551	— 16.1	5,540,856	5,376,834	— 3.0	6.4	5.5
24	Bell Telephone System	139,336	128,585	— 7.7	2,889,422	2,781,187	— 3.7	4.8	4.6
21	Street Railways	2,067	999	— 51.7	619,739	612,525	— 1.2	0.3	0.2
45	Banks and Trust Cos. (c)	D- 46,320	D-179,637	......	2,174,275	1,953,505	—10.2	......	......
50	Insurance Companies (e)	D- 76,719	93,403	+	562,226	445,167	—20.8	......	21.0
50	Investment Trusts (f)	4,505	28,732	+537.8	1,241,436	1,035,140	—16.6	.4	2.8
25	Finance Companies	22,573	29,532	+ 30.8	335,489	320,251	— 4.5	6.7	9.2
1,925	Grand Total	$151,187	$1,045,019	+591.2	$53,451,506	$49,880,118	— 6.7	0.3	2.1

D—Deficit. (a) Sample not representative of all branches of the industry because of the limited number of published reports available. (b) Figures refer to shareholders only. Because of the large proportion of bonded indebtedness, actual return on the property investment is less than the above. (c) After deducting known reserves and extraordinary charge-offs of $164,212,000 in 1932 and $282,476,000 in 1933. (e) Fire and casualty. Figures represent total shareholders' gains or losses, on underwritings, investments and valuation adjustments. (f) Net income shown as reported, not including such profits or losses on investments sold as were carried directly to surplus or reserves, or changes in the market value of portfolios.

In the following table we give the figures for a group of 240 of the more important companies which did report gross or net sales for the year, aggregating $5,598,000,000. It will be seen that combined net profits for this group were $48,684,000, or less than 1 cent per dollar of sales, the balance of 99 cents out of every dollar going for wages, salaries, purchases of materials, taxes, interest, etc.

Manufacturing Net Profits and Sales in 1933
(In Thousands of Dollars)

No.	Industry	Profits	Sales	Per Cent
11	Automobiles	$ 3,808	$309,614	1.2
14	Cotton Mills	8,296	116,340	7.1
7	Drugs and Sundries	15,706	224,675	7.0
8	Electrical Equipment	D-12,051	297,276	D-4.1
14	Food Prod.—Misc.	21,046	483,670	4.4
17	Iron and Steel	D-58,262	839,081	D-6.9
15	Meat Packing	19,285	1,290,365	1.5
11	Petroleum	196	547,084	......
8	Rubber Tires, etc.	10,942	381,840	2.9
9	Shoes	11,611	171,467	6.8
126	Miscellaneous	28,107	936,216	3.0
240	Total	$48,684	$5,597,628	0.9

D—Deficit.

These figures are of particular interest in view of the charge, frequently repeated, that capital exacts undue tolls upon the products of industry. It is true that industry made much larger profits in the period from 1922 to 1929. Even in this period, however, the percentage of profits to gross business remained moderate, the larger actual profits being realized on a great increase in the volume of business. This is proven by a second table, compiled from the Treasury "Statistics of Income" for the years 1919 to 1932:

All Manufacturing Corporations in the United States
(In Millions of Dollars)

Calendar Year	Number of Cos.*	Sales or Gross Income	Net Income After Taxes	Per cent Net to Gross
1919	67,852	$ 52,290	$ 3,493	6.68
1920	78,171	56,649	2,387	4.13
1921	79,748	38,442	D-473	D-1.23
1922	82,485	44,683	2,251	5.04
1923	85,199	56,221	3,086	5.49
1924	86,803	53,911	2,334	4.33
1925	88,674	60,830	3,154	5.18
1926	93,244	62,495	3.124	5.00
1927	89,816	63,728	2,580	4.05
1928	91,573	67,273	3,366	5.00
1929	92,230	72,132	3,862	5.35
1930	91,504	58,650	801	1.37
1931	89,085	44,033	D-988	D-2.24
1932†	82,733	23,846	D-1,533	D-6.43
14 Year Average	85,651	$53,941	$2,028	3.76

D- Deficit. † Preliminary. * Excluding inactive corporations.

Attention is called to the fact that in no year after 1919 did the share of the total value of the product retained as profit equal six per cent. Including the deficit years of 1921, 1931 and 1932 the average profit on sales for the fourteen years was only 3.76 per cent. Such figures afford no support for the common charge that the depression was caused by the exorbitant profits of industry during the prosperity and failure to distribute purchasing power freely enough to enable the volume of products to be bought and consumed.

Profits in Other Lines of Business

In addition to the manufacturing and trading industries, our tabulation gives a summary of representative companies in a number of other lines of business, including railroad, communication, electric light and gas, street railway, banking, insurance, investment trust and financing. The grand total of some 1,925 companies having an aggregate net worth of $49,880,000,000 shows combined net profits in 1933 of $1,045,000,000, representing a return of 2.1 per cent, as compared with practically no net profits in 1932.

Total revenues of the 165 Class I steam railroads decreased from $3,127,000,000 in 1932 to $3,095,000,000 in 1933. Revenues last year were 53 per cent below the 1929 level and operating expenses were 59 per cent below. Railway operating income, after deducting operating expenses, but before fixed charges, increased from $326,000,000 to $474,000,000 and the rate of return on the $26,095,000,000 property investment increased from 1.24 to 1.80 per cent. After payment of interest on bonded indebtedness, but before payment of dividends on shareholders' capital of $12,394,000,000, there was a net deficit of $150,634,000 in 1932 and $13,801,000 in 1933.

A group of 85 public utility operating companies supplying electric light and power, gas, etc., and having a net worth of $5,377,000,000, reported combined net profits of $354,000,000 in 1932 and $297,000,000 in 1933, representing a decline of 16 per cent, despite the increase in electric power consumption since last March. For the full year 1933, total sales of electrical energy to ultimate consumers *increased* approximately 3 per cent as measured in kilowatt-hours, yet total dollar revenues *decreased* 3 per cent, the reason being that increased sales to industrial consumers, which carry a lower kilowatt-hour rate, were offset by decreased sales to residential and commercial small light and power users carrying a higher rate, and to rate reductions.

Because of this shift in the character of consumption and rate reductions for certain classes of service, net income declined by a larger percentage than did gross revenues, although other adverse factors were a forced increase in employment and payrolls, and a further increase in taxes paid. The sum total of Federal and local sales taxes, property taxes, income taxes, franchise taxes, etc., now

takes approximately 13 cents out of every dollar of revenue received by the power companies. One dollar is paid by those companies in taxes to every two dollars for payrolls.

A group of 50 fire and casualty insurance companies showed a shareholders' gain in 1933 of $93,000,000, in contrast with a loss of $77,000,000 in 1932. A list of 45 of the large banks and trust companies showed an increase in net loss for 1933 as compared with 1932, this being due entirely to an increase in the amount of known reserves and extraordinary charge-offs, operating earnings prior to making these deductions being practically the same for both years.

A summary of investment trust operations is included in the tabulation for the first time, based upon 50 of the more important trusts and showing the net income as reported, but not including such profits or losses on investments sold as were carried directly to surplus or reserves, or changes in the market value of portfolios, which declined in 1932 and rose in 1933.

Distribution of the National Income

There is no subject of greater general interest than the distribution of the "National income," meaning by the latter term the aggregate value of the personal incomes received by all the people of the United States. Moreover, there probably is no important subject upon which so many flagrant misstatements and misrepresentations are made. The public prints are burdened with them, often repeated by persons prominent in public life and in social and economic agitation, whose utterances naturally are influential in shaping public opinion.

The figures given here have been compiled in response to Senate Resolution No. 220, Seventy-Second Congress, which called upon the Department of Commerce to submit a study and estimate of the national income and its distribution in the four years 1929-1932. The official announcement states that the study has required over a year of intensive research, and was prepared with the active cooperation of the National Bureau of Economic Research, Inc.

The results of this study, condensed but sufficient for most readers, are given in Bulletin 49 of the National Bureau of Economic Research, Inc. (*), dated January 26, 1934, from which we take the tables on the next page. We have indicated above the meaning of the term "national income." The results are arrived at by two comparable calculations, viz.: (1) the total value of all products and services which entered into trade, as they are reported in available statistics of production, trade, incomes, etc.; (2) the total income paid out in terms of money, as appears from the statistics of salaries, wages and all payments to wage-earners, and the total of interest, dividends, rents and other receipts or withdrawals by owners or proprietors of capital and business.

It is well to appreciate at the beginning of the study that the final distribution of income, and the one which directly affects human welfare, is the distribution to individuals. The ultimate purpose of all the activities of business is to supply human wants. Intermediate transfers and uses of income in the processes of production and trade are of importance for their bearing upon the aggregate sum finally available to individuals. This study is directed accordingly. It is pointed out that if the total produced was finally distributed in the same year, the two calculations would fully correspond, but this is seldom exactly the case, as explained in the discussion.

With this introduction we proceed to an examination of the aggregate income, as

(*) The National Bureau of Economic Research, Inc.

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shown by the two computations in Tables 1 and 2-3:

Table 1

National Income, Paid Out and Produced

(Millions of Dollars)

	1929	1930	1931	1932
Income paid out	81,040	75,438	63,289	48,952
Business savings or losses	1,997	— 4,954	— 8,637	—10,603
Income produced	83,037	70,484	54,652	38,349

Percentages of 1929

	1929	1930	1931	1932
Income paid out	100.0	93.1	78.1	60.4
Income produced	100.0	84.9	65.8	46.2
U.S.B. of L.S. cost of living index	100.0	97.4	88.9	80.4
U.S.B. of L.S. wholesale price index	100.0	90.7	76.6	68.0

The authors have classified the two computations as "income produced" and "income paid out", and the table shows the differences between them in each year. Production, which includes services of all kinds, is largely carried on by organized effort through corporations, although to an important extent by individuals and partnerships, the latter being classed in this study under the French word, "entrepreneur," meaning independent operator. Farmers are included in this group. The first computation relates to the values which these proprietors of business produce and pay out. The latter constitutes the income of individuals, excepting as a rule services which they render directly to themselves.

The table shows that in 1929, out of $83,037,000,000 of net values produced and either consumed or added to the national wealth, $1,997,000,000 was not distributed or withdrawn from productive employment, but remained as an increase of productive capacity. On the other hand, in each of the years 1930, 1931 and 1932, the combined out-payments and losses of these productive factors created deficits of $4,954,000,000, $8,637,000,000 and $10,603,000,000 respectively. In other words, the productive organization ended each of these years worse off in resources by these losses than it was at the beginning. From 1929 to 1932 income "paid out"—i.e., received by individuals from the business organization—declined in total amount from the base figure 100 to 60.4 per cent of 100, while income produced by business activities declined from 100 to 46.2 per cent of 100. Thus business as a whole was on the road to ruin.

As related to the foregoing figures upon income, the Report gives the figures of the United States Bureau of Labor Statistics upon the decline of the cost of living, as calculated on the basis of retail prices of commodities commonly bought by wage-workers' families, and upon the decline of wholesale prices. The former decline was from 100 to 84.4 per cent, and the latter from 100 to 68. The difference in these rates of decline obviously is chargeable to costs of retail distribution, and to the use of somewhat different lists of goods. Salaries and wages are a larger factor in retail prices than in wholesale prices.

An examination of Table 2-3 will show that total labor income (salaries, wages, etc.) was the principal item in "income paid out", both in 1929, when it was $52,867,000,000 in a total of $81,040,000,000, or 65.2 per cent, and in 1932, when it was $31,595,000,000 in a total of $48,952,000,000, or 64.5 per cent. The other shares are also shown with percentages of 1929, and at the right is shown the percentage each share is of the total "income paid out" each year. The reader will need to be careful not to confuse the several percentages, which are upon different bases.

The first general comment to be made upon both of these tables is that account must be taken of the fall of prices, or rise in the pur-

(This table is made up from Tables 2 and 3 of the Bulletin)

National Income Paid Out, by Types of Payment — **Percentage Distribution of National Income, by Types of Payment**

	Millions of Dollars				Percentages of 1929				Percentages of Total Income Paid Out			
	1929	1930	1931	1932	1929	1930	1931	1932	1929	1930	1931	1932
Salaries (selected industries)†	5,702	5,660	4,738	3,382	100.0	99.3	83.1	59.3	7.1	7.5	7.5	6.9
Wages (selected industries)†	17,180	14,209	10,541	6,839	100.0	82.7	61.4	39.8	21.2	18.8	16.7	14.0
Salaries and wages (all other industries)	29,129	27,902	24,759	20,367	100.0	95.8	85.0	69.9	35.9	37.0	39.1	41.6
Total labor income‡	52,867	48,688	41,027	31,595	100.0	92.1	77.6	59.8	65.2	64.5	64.8	64.5
Dividends	5,963	5,795	4,311	2,590	100.0	97.2	72.3	43.4				
Interest	5,687	5,826	5,662	5,506	100.0	102.4	99.6	96.8	7.4	7.7	6.8	5.3
Total property income§	12.215	12,238	10,508	8,489	100.0	100.2	86.0	69.5	7.0	7.7	8.9	11.2
Net rents and royalties	3.835	3,237	2,494	1,691	100.0	84.4	65.0	44.1	15.1	16.2	16.6	17.3
Entrepreneurial withdrawals	12,121	11,275	9,259	7,181	100.0	93.0	76.4	59.2	4.7	4.3	3.9	3.5
Total entrepreneurial income	15,956	14,512	11,753	8,872	100.0	91.0	73.7	55.6	15.0	14.9	14.6	14.7
Total income paid out¶	81,040	75,438	63,289	48,952	100.0	93.1	78.1	60.4	19.7	19.2	18.6	18.1

†Includes mining, manufacturing, construction, steam railroads, Pullman, railway express and water transportation.

‡Includes also employees' pensions and compensation for injury.

§Includes also net balance of international flow of property incomes.

¶The grand totals in this and the following tables are obtained by an addition of the totals for each industrial field. The income subtotals by industrial fields are primarily in thousands of dollars, while the subtotals of gainfully engaged are usually in actual numbers. But the subtotals entered in Tables 2-9 are either in millions of dollars (for income) or in thousands of persons (for numbers engaged). These subtotals do not, therefore, add up exactly to the grand totals given.

chasing power of money. The decline in "real" income produced and paid out (the physical volume of commodities and services) was not so great as the decline of money values, and the same is true of the purchasing power of all the classes of income given in the table. This is important, because if everybody's money income had the same purchasing power over goods and services from one time to another, there would be no change of status, except as might result from contractural relations in terms of money, which is a subject for separate discussion.

The amount of money income in the hands of individuals declined after 1929 as a result of unemployment, wage-rate reductions, falling prices, dividend reductions, interest defaults, etc., but the purchasing power of a given income was increased by the fall of prices. The Bureau does not attempt a close calculation of the net result upon the purchasing power of all personal incomes, but says that a comparison with the Bureau of Labor Statistics' Index of cost of living "suggests that by 1932 the net contraction of purchasing power of income paid out may have amounted to 25 per cent of the 1929 volume." A similar comparison of "income produced" with the Bureau of Labor Statistics' index of wholesale prices, suggests to the Bulletin writer that "the volume of income produced, at a constant price level," may have declined from 1929 to 1932, by from 30 to 40 per cent. Comparing these figures with the Table 2-3 reduction in terms of money (from 100 to 46.2, or 53.8 per cent) will give an approximate idea of the part of that reduction which resulted from the price changes.

Walter Lippmann's Address

This Bulletin has attracted much attention and one person's discussion of it is so particularly noteworthy that we are moved to refer to it by way of elucidating the findings of the study.

The Bulletin is dated January 26, 1934, and on the evening of the 29th, the same month, Mr. Walter Lippmann, as a speaker at the annual dinner of the American Acceptance Council in this city, made it the subject of his address.

Mr. Lippmann is a writer of distinction, skilled in analysis and dialectics, whose motives are unquestioned and who has a large following of attentive readers. No doubt he may be counted as belonging to the "liberal" school of thought, although he is hardly "liberal" enough to satisfy the more aggressive disciples. The scope of the term has been enlarged until it is scarcely distinctive.

Mr. Lippmann paid a tribute to the Bureau of Economic Research as "a disinterested and highly reputable organization," to which there can be no dissent, and commented upon the tables as having "tremendous significance," summing up his findings as follows:

> From 1929 to 1932 there was a great decline in the total national income. But in the course of this decline salaries and dividend payments fell slowly at first. Interest payments fell very little. Among labor incomes salaried men were favored as against wage-earners, and of course wage-earners as against the unemployed. Relatively speaking, property incomes increased. * * *
>
> The figures show that the depression was not like some great accident, say a shipwreck, in which all suffered alike. They show, on the contrary, that the sacrifices were very uneven, and that worst of all, though nearly everybody was poorer, the distribution of wealth became progressively more and more unequal, taking the greatest toll from those who were already the weakest, and far greater toll from the active producers of wealth than from the recipients of fixed or sheltered incomes.

These are but two paragraphs from an address occupying three newspaper columns of small type, but we think they do not misrepresent the address.

There is no disagreement as to the deplorable and terrible effects of the state of disorder in human relations which has existed since August 1, 1914. We put the beginning at that date because disorder has existed ever since. It is not too much to say that no such calamity as the world war, with its train of results, has been known in all the previous history of mankind. Never before had the civilized state of interdependence reached so high a development and never had it known such a blow as the impact of the world war. It is true also that in such a general state of disorganization and confusion as has resulted from the war the masses who have but small reserves of purchasing power endure the greatest aggregate of suffering, in the sense that more persons in that class suffer than in the remainder of the population. The fact that labor's income both in 1929 and 1932 was approximately 65 per cent of the total national income distributed is proof that this would be naturally so, but also proves that it was not due to an increasing rate of decline in labor's share of the national income. In truth the tables of this Report afford ample proof that a state of disorder in the economic system reduced the aggregate of income produced and affected other classes even more violently than it did labor, as we shall see. The average net earnings of corporations and individual proprietors in manufacturing, construction, transportation, trade, finance, agriculture and mining suffered greater declines from 1929 to 1932 than did the total income of labor.

Moreover, the fact is often overlooked that only a small part of the wealth of modern society can be readily converted into forms which minister directly to the common wants of the people. The well-being of the masses is dependent upon a *stream* of consumable goods,

and therefore upon the orderly processes of production and distribution, rather than upon reserves.

The criticism of the quotation combines the several classes of income attributed to property with but little discrimination between them or consideration of how they originate, how they are distributed or their differing relations to the economic system upon which all incomes depend. Let us examine these different types of property income.

Income from Dividends

Table 1 shows that from 1929 to 1932 dividends declined to 43.4 per cent of the 1929 base, the combined income of labor declined to 59.8 per cent of the 1929 base, and that wages alone declined to 39.8 per cent of that base. This, however, is not all of the story, for in each of the three years following 1929, dividends, if maintained, were paid in increasing degree out of resources accumulated in previous years. This policy was in prudent recognition of the fact that net earnings are the most variable factor in industrial and business life. It was in pursuance of a policy of equalizing dividends over good years and bad, upon the law of averages, for the convenience and assurance of shareholders. If in this connection the reader is interested in knowing the average net earnings of all the manufacturing industries of the United States from 1929 to 1932, he can find a table of them on page 59 of this publication; and we think it pertinent to mention the fact, shown by the reports of the Bureau of Internal Revenue, that all the corporations in the United States, excepting tax-exempt and life insurance companies, taken together, had deficits from their operations in both 1931 and 1932. In other words, the aggregate earnings of them all did not equal the aggregate losses, and on the consolidated basis there were no net earnings for shareholders in those years. Therefore, the comparison between the years 1929 and 1932, of a decline to 39.8 per cent in wages with a decline to 43.4 per cent in dividends is far from being a true representation of the division of income produced in those years.

Mr. George O. May, senior partner of Price, Waterhouse & Company, an internationally known firm of accountants, who is perfectly familiar with these figures, and himself a member of the Board of Directors of the National Bureau of Economic Research, has commented upon this point as follows:

It is apparent that a large part of the dividends and interest paid on those years were paid out of capital or out of corporate savings of prior years. It does not seem correct to describe such payments as "income paid out," and the use of this term may have given rise to misconceptions. The paragraph at the foot of page 5 of Bulletin 49 ending with the statement "It is obvious that payments to property holders formed a relatively increasing cost to the economic system as a whole" does not seem to me to state the case quite accurately. What the property owners collectively received was largely, if not mainly, the result of their previous thrift—not a part of the current income flow for the depression years.

A conclusion substantially different from that presented in Bulletin 49 is reached if the amount of income received by labor is compared with the total income produced for the years from 1929-1932. The figures taken from tables 1 and 2 in Bulletin 49 are as follows:

	(Millions of dollars)			
	1929	1930	1931	1932
Total income produced	83,037	70,484	54,652	38,349
Received by labor	52,867	48,688	41,027	31,595
Per cent of amount received by labor to total income produced	63.6	69.6	75.1	82.5

It should be understood that this is a showing of the ratio of total salaries, wages, pensions, etc., of all employed labor, to the total value of all goods and services of every kind produced in this country, whether any hired labor was employed in some of them or not, thus covering not only what are commonly called the "industries," but agriculture, transportation, mining, trade, all the professions, and last but not least, the several branches of government.

It is no answer to this statement to say that net income produced was lessened by losses incidental to the depression, or by depreciation and depletion charges. We emphasize the fact that the decline in all income was caused by disorder in trade relations. This does not alter the fact that such charges, as required, must be made against gross income if the finances of the companies are to be kept in order. It would be as pertinent to say that tax payments should not be charged against income, although they are an item of expense which has increased as a result of the depression and is still increasing. A corporation cannot long maintain wages, or a given amount of employment, if operating at a loss, and it is not in the interest of the wage-workers themselves that it should attempt to do so. For the result would soon be bankruptcy and the end of the business, with the wage-workers out of their jobs at a time when there are no others to be had. At such a time every case of bankruptcy weakens confidence and increases the disorder. The most important consideration at such times is maintenance of the business organization, for it is only by organized production that the physical needs of the latter-day population can be supplied. Corporations as a rule have only a moderate share of their capital in cash or realizable assets, and to exhaust these resources would cripple or ruin them. Many have suffered in this manner, and the greater the number that might follow an imprudent policy in this respect the more hopeless would be the prospect for the recovery of order, prosperity and employment.

Income from Interest

It is evident that the principal factor in the maintenance of income derived from property during the depression has been the flow of interest. (*) There is a good reason why interest payments do not fall off as rapidly in bad times as do dividends, rents, the profits of entrepreneurs or even the earnings of labor. The holders of interest-bearing investments are not actually in business. They are persons who for various reasons prefer to accept a lower return upon their capital if assured of certainty, and allow others to use it upon an agreement to pay a fixed rate of interest. Such persons may have reached the age of retirement from active business; or, as in the case of widows and children, have come into bequests which should not be subject to the risks of business; or may have acquired their capital by gradual savings and in sums too small to be employed by themselves in business; and there are many persons who feel that they lack the experience to embark in competitive business on their own account, or have not the inclination to do so.

The practice of lending at interest encourages thrift by holding out the promise of an assured income for declining years, it affords opportunities for young men to advance more rapidly than otherwise would be possible, serves in accomplishing the most complete use of the country's supply of capital, and promotes social stability. Furthermore, a fund of capital is made available for the employment of labor and the improvement of industry, the benefits of which are diffused throughout the community. In short, this is one of the means by which the modern system of production has been built up and the standard of living in this country has been made what it is, in contrast with that of countries with an inferior industrial equipment.

Labor, owners' capital and loaned capital are distinct factors in industry, although cooperating. The supply of capital available for loans, and the share which this capital obtains in the proceeds of industry, are determined first by the number of persons who can be induced to save for capital and then by the choice which they may make as to the form of their investments. As to the general or average compensation of capital no better method of regulation ever has been found than that of simply allowing capital to accumulate. As between different employments of capital there is automatic regulation. Those who choose to loan at the market rate and forego the chance of a larger return in business do so for the assurance of safety, while those who make the choice of employing borrowed capital do so for the chance of profit; and the preponderance of choice determines interest rates. The membership of the two groups is not fixed, for normally there is freedom of movement between all groups of the economic system, and this is the best guaranty of fair relations.

The service of either group is not to be rated above that of the other; a balanced relation is the desirable one. However, it is pertinent to say that the lenders, or so-called "sheltered" class, never have been responsible for the violent disorders of which complaints are made. They play a comparatively passive part in the day-to-day fixation of interest rates, since borrowers make such rates by competition with each other, but the saving and lending class determines the supply of loanable funds and its members cannot be ruled out as producers.

Labor shares in the benefits of all capital accumulations, through an increasing demand for labor and an increasing supply of consumable goods. It is to be considered that as a result of the "roundabout" method of modern production, by which labor is first employed to make machinery and the machinery is then employed to produce consumable goods, practically all of the invested capital upon which interest is paid was "invested" by the way of payments to labor, or virtually advanced for the payment of wages. Thus the interest on the money advanced for the construction of the railroads is as truly a part of the labor cost of railroad service as are the wages of trainmen. Furthermore, no population group has gained so much by the substitution of railroads for ox-carts as the wage-working group, and the same is true of all the economies of machine production; the fact that 65 per cent of the national income is disbursed to labor is proof of this, for economies in production increase the purchasing power of wages and salaries.

Furthermore, the bonds which represent these investments are chiefly held by institutions which are trustees for the savings of millions of wage-workers, in the form of bank deposits and life insurance policies and by endowed institutions for social service, such as colleges, universities, hospitals, art galleries and benevolent societies of many kinds, the patrons and beneficiaries of which are the masses of the people. These are "sheltered" interests entitled to respectful consideration.

The Assumed Conflict Between Salaries and Wages

One of the criticisms offered is that the number of salaried employes and their aggregate salaries did not decline as rapidly or as

(*) It should be borne in mind that the figures for interest in the table include only the sums received by individuals. Interest received by corporations will reach individuals through the various channels named in the table. Also account should be taken of the fact that interest payments have been maintained to a considerable extent by new borrowing.

much as the number of wage-workers and their aggregate wage income. This is assumed to be discrimination, unfair and contrary to sound public policy. The evident reply is that the salaried workers as a rule have positions of greater responsibility than the rank and file of wage-employes, and are much fewer in number; they hold the key positions in an organization, often have come up from the ranks, have been longer in the organization and cannot be as readily replaced as the average wage-employe. It is improbable that in making the readjustments required by a diminishing volume of business the same proportionate reductions can be made in the salaried force as in the manual labor force. This is a sufficient explanation of the reluctance of an executive head or board of directors to part with trained assistants or create dissatisfaction among such as are regarded as especially valuable to the business.

Again we would emphasize, as often heretofore, that there are no fixed and closed classes in American economic life, and there should be no representations to this effect. The great body of proprietors, directors and executives of American business have come up through the ranks from the wage-working group, and the knowledge of this is an incentive to every man to develop the best that is in himself. It is a worthy purpose, for no one can injure himself or another by holding to it.

Again it is to be said that the efficiency of the economic organization is a matter of importance to the entire community, including the wage-workers and their families, and efficiency is largely dependent upon the executive staff. Questions of who shall compose it and what the relative rates of compensation shall be cannot be settled by any general rule. Certainly efficiency would not be assured by adopting the rule of seniority in service, which usually applies in government service.

It is probable that interest in official salaries has been stimulated by recent publicity on this subject and that some people have been impressed that wage-workers and the public have suffered by favoritism to officers. The question relates to the best policy for promoting efficiency in corporation operations. There is competition for men of experience and proven capacity in all lines of business, and salaries naturally vary in some relation to the responsibility of the positions to be filled and the possible difference in net earnings under different grades of managerial ability. These differences increase as the volume of business increases, because the range of possible profit-and-loss fluctuations increases, hence large individual salaries for officials of large responsibility may be lower relatively than the salaries of branch managers of a chain of retail stores.

A classified compilation of the compensation of corporation officials appears in this Report, based upon data collected by the Bureau of Internal Revenue. It shows that in proportion to assets, gross sales and combined receipts the aggregate compensation of officers is lower in the large corporations than in the small ones. Dividing the corporations into two classes, to-wit, those of more and those of less than $1,000,000 of total assets, the comparison for 1931, is as follows:

	All Companies	Under 1 Million	Over 1 Million
Ratio, Compensation of Officers to:			
Total Assets	0.9%	4.2%	0.3%
Gross Sales and other income	2.4%	5.1%	1.1%

It is evident that prospective economies in officers' compensation is one of the inducements to consolidations. Moreover, the interest of wage-workers and of the public are alike benefited by such a distribution of managerial ability as will place superior ability where it will do the most good, i.e., in charge of the greatest responsibilities. Nothing is more certain than that in a competitive situation no corporation can base its prices to the public on uneconomical salary expenditures. Any wasteful extravagancies will be borne by the shareholders and as a rule the subject may well be left to them.

Cause of the Depression

The criticisms by Mr. Lippmann imply that something is fundamentally wrong with the industrial organization, but an explanation of the state of disorder which is the cause of the shrinkage in the national income is supplied by the orthodox principles of economics which are taught in every university in the world. It is a commonplace that the modern industrial system is based upon the mutual advantages of specialized production and exchange, and that the gains in productivity resulting from it have been advantageous to every group and class. There is abundant proof that the class of the population which always has obtained its livelihood by relatively unskilled labor, and which has ranked lower in compensation than the numerous groups of specialized skill, has gained more than any other by the organized and capitalized system of industry, which has reached its highest development in this country; and this being true it follows that it will suffer more in personal deprivation than any other by the disorganization and prostration of the system. But, by the same reasoning it has a greater stake in the maintenance of the system, and in cooperation for its stability.

It follows from the very complexity to which the economic system owes its efficiency and the fact that the basic principle is an

exchange of services, that the system is dependent upon mutual understanding and cooperation. As in every organization, its parts are interrelated and interdependent. If it falls into disorder the flow of trade will be interrupted, surpluses will occur, consumption will fall off, prices will fall, unemployment will result, and all of the conditions of the last four years will appear. Balance, not force or arbitrary power, is the secret of sound economics.

Hence it is that all theories which explain economic phenomena in terms of a natural conflict of group or class interests are fundamentally untrue and disruptive of the relationships upon which prosperity and social progress depend.

The Disruption of Trade Relations

Mr. Lippmann assumes "for the sake of the argument" that in 1929 the distribution of income was reasonably satisfactory to the mass of the people," and upon that basis proceeds to "examine what happened to the chief groups of income receivers in the three following years." Having regard for the well recognized principle that the purchasing power of every group of the population is in what it sells to the other groups, and that what we call prosperity is a result of fairly balanced relations among the principal groups, we give herewith Table 9 from Bulletin 49, which discloses the changes in these relations since 1929. Lack of space compels us to omit the actual value figures, giving only percentages of the 1929 base. The aggregate of values for 1929 was $83,037,000,000 and for 1932 $38,349,000,000, as also shown in Table 1. The percentages for each year tell of the loss of purchasing power for each group.

Table 9. Income Produced by Economic Divisions

	Percentages of 1929			
	1929	1930	1931	1932
Agriculture	100.0	74.6	51.4	29.6
Mining	100.0	71.8	39.1	23.6
Electric Light and Power and Gas	100.0	95.0	91.4	74.3
Manufacturing	100.0	73.9	50.0	25.8
Construction	100.0	86.1	54.2	25.1
Transportation	100.0	86.6	69.3	51.1
Communication	100.0	97.1	88.5	73.2
Trade	100.0	83.7	64.9	42.2
Finance	100.0	90.0	68.6	48.2
Government	100.0	104.7	105.2	105.2
Service	100.0	93.3	78.0	60.5
Miscellaneous	100.0	91.2	73.2	54.6
Total	100.0	84.9	65.8	46.2

This table explains all of the phenomena of the depression. Observe the variations in the incomes produced by the several divisions, and particularly the fall in agriculture, mining, manufacturing (all manufactures) and construction.

We can make room for only one more table, which is a combination of two tables appearing in another Bulletin of the Bureau of Economic Research, "Wages During the Depression," published last year, and prepared by Professor Leo Wolman. He has been head of the Advisory Committee for Labor of the NRA, and has just been appointed arbitrator of the new board for the automobile industry. One of his tables gives average per capita weekly earnings in seven important industries and includes "employed workers," whether working part time or full time. The other table shows the percentage change resulting from conversion of these money earnings into "real" wages on the "cost of living" basis of the Bureau of Labor, Washington. The two tables are consolidated below:

Average Per-Capita Weekly Earnings, Money Wages 1929 and 1932

Industry	1929	1932	Percentage Change 1929 to 1932	Percentage Change in "Real" Weekly Earnings 1929 to 1932
Manufacturing	$24.36	$18.18	— 33.6	— 14.9
Bituminous Coal	25.00	13.78	— 44.9	— 29.4
Anthracite Coal	30.85	24.86	— 19.6	+ 3.1
Metalliferous Mining	30.12	18.63	— 38.2	— 20.8
Public Utilities	29.56	28.58	— 3.3	+ 24.0
Trade, Retail and Wholesale	25.10	21.95	— 12.6	+ 12.1
Class 1 Railroads	32.62	27.15	— 16.8	+ 6.7

The last column in this table shows the difference which appears when the decline of living costs is taken into the wage account. In four of the seven industrial groups real weekly earnings for employed workers, including those working part time, were higher in 1932 than in 1929. This combined table and Table 9 together prove that unemployment and *not wage cutting* was the principal cause of the decline of wage-income from 1929 to 1932.

Thus the problem of the depression centers upon the cause of unemployment, and since business men are always eager to give employment when they can sell their products, they certainly have not been deliberately responsible. They have been as helpless in the situation as the wage-workers themselves. The direct cause has been a state of worldwide disorder in trade relations which has been beyond the control of any individual employer or group of employers.

Responsibility for Unemployment

In another article in this issue, entitled "Free vs. Controlled Agriculture," page 52, we refer at length to the depressed prices of agricultural products, and to Secretary Wallace's vigorous policies for "restoring the parity" between the prices of farm products and the prices of the products and services of what the farmers must buy. It is generally recognized that the relatively low purchasing power of the farm population is one of the chief factors in the depression, but it is not generally recognized that a rise in the prices of farm products will not of itself prove a

remedy. It is not generally accepted that there must be a *relative* gain in the farmer's position, or in other words, that his prices must rise more than other prices, or rise while other prices decline or stand still, in order to restore the parity. Nor is it understood that without an increased production of wealth there is no possible way of increasing the income of any member of the industrial circle without reducing the compensation of another. The obsession that all can be benefited by raising prices on each other, or that the aggregate of buying power can be increased by creating more money, is abroad in the land.

The figures for "real" wages given in the Wolman table above prove that a rational, cooperative adjustment of compensation rates throughout the economic system would injure nobody, but by restoring the normal relationships between all goods and services would restore employment and prosperity throughout the land.

The figures of the above tables supply absolute proof of the trade blockade which has resulted from the disorder in wage and price relations, having its origin in the war. Table 1 shows that in 1929 the aggregate of income produced in the United States was $83,037,000,000, of which wages and salaries received $52,863,000,000, or 63.7 per cent. In 1932 the total of national income produced had fallen to $38,349,000,000, or $14,518,000,000 less than the amount paid for wages and salaries in 1929. With the strongly organized labor bodies insisting upon the wage rates of 1929, how could the effect upon employment have been other than what it was? The costs of production were so high in relation to average incomes that the products could not be sold.

The expenditures of the American people upon all branches of government were stated by the National Economy League in 1928 at about $15,000,000,000, and so stated by Governor Roosevelt in his Pittsburgh speech of that year. This equalled about *18 per cent* of the national income in 1929, which was bad enough, but since then governmental expenditures have increased, but calculated at the same rate for 1932 they then equalled *39 per cent* of the national income, which is appalling. How could the people continue their personal expenditures on the same basis as in 1929?

It will be said that if all the unemployed were put back to work and all wages restored to the 1929 level, the national income would be fully restored. Belief that this can be done is the obsession which has dominated the country for four years. It is based upon a fallacious idea of the control which governments can exercise over economic relations. It fails to grasp the truth that business consists of an exchange of services, that the real purchasing power of the markets exists in the products and services offered in trade, and that the depression results from unbalanced relations. It assumes that purchasing power can be had from some source outside of the exchanges themselves, and that nothing is needed but the authority of the Government to advance everybody's pay. The cold truth is that our pay comes from each other, and that to advance everybody's compensation alike would maintain the disparity which has caused the blockade of trade.

With that clarity of expression which has brought him fame as a writer, Mr. Walter Lippmann has described the policy as the "economy of bedlam." We are glad to find ourselves in full agreement with him in what follows:

(From Mr. Lippmann's Department "Today and Tomorrow," New York Herald-Tribune November 10, 1933)

It is very necessary in managing a reflation to keep continually in mind that the evil to be corrected is disparity in prices. For example: if wheat at $2 will buy a pair of overalls at $2, and then if wheat falls to $1 while overalls stay at $2, you have disparity. The farmer cannot buy overalls; the maker of overalls is thrown out of work. That is the kind of evil we have been suffering from. But now supposing that by some monetary stunt you doubled all prices: wheat would then be $2 and overalls $4. Would you have gained anything? You would not. What you want is to have the price of overalls stand still, or even to fall, while the price of wheat rises.

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It is not simply a problem of how to raise prices. It is a problem of how to raise some prices and how to hold down, and even to depress, other prices. For what is needed is to close the gaps which the depression has opened, and that means not only raising farm and raw materials prices, but holding down retail prices, and pushing down prices entering into capital equipment. For the prices of capital goods are still inordinately high as compared with other goods.

(From Mr. Lippmann's Article in New York Herald-Tribune, March 28, 1934)

Each group of farmers, manufacturers, workers has become imbued with the idea that if they can charge more for their product they will have more purchasing power. It might work if they were the only fellows practicing this policy. But if everybody practices it at once, the result is a tendency to cancel out everybody's gains. What the farmers have gained by the A. A. A. they have in considerable degree lost in the higher prices of N. R. A. The higher wages of N. R. A. are counterbalanced by the higher cost of living produced by A. A. A. and N. R. A. The increased employment brought about by the codes is counterbalanced by decreased employment due to the decreased demand of consumers faced with higher prices.

With apologies, we beg the privilege of suggesting that the policy described *would not work* even if the "other fellows" could not or did not do likewise. For the "other fellows" are already using all of their purchasing power and if prices were raised against them they would be obliged to reduce their purchases. The fault in the policy is in an erroneous conception of the real source of purchasing power.

There is much more to be said about the distribution of the national income and we shall return to the subject later.